

smiths

Smiths Group Plc Annual Results

Tuesday, 28th September 2021

Opening Remarks

Paul Keel

Chief Executive, Smiths Group PLC

Introduction

Good morning everyone and thank you for joining us today. With me in London this morning is John Shipsey, our CFO, who you all know well. In terms of the running order, I'll offer a few thoughts to set the stage, hand it over to John to take us through the numbers, and then come back to share some of my thoughts from the first few months on the job before opening it up for questions from all of you.

Let me start by saying what an honour it is to be leading this great company. Across our 170-year history, Smiths has played a meaningful role in some of the world's most notable advances – exploring space, ensuring safe passage, and as we sit here today, playing a front-line role in battling a pandemic that continues to impact far too many. Precious few organisations can match such depth, and this speaks to a resilience and creativity woven deeply into the fabric of Smiths.

I joined the company in May because I saw in Smiths a fundamentally good business, with meaningful upside both in the near and longer terms. And as you saw in this morning's announcement, we have good evidence of this in our fiscal 21 results. Highlights include an accelerating top line across the year and a return to growth in Q4, operating profit of 7%, an EPS of 8%, an operating cash conversion of 125%. In total these demonstrate the intrinsic value creative characteristics of our balanced portfolio and integrated business model. Fiscal 21 was a solid year for Smiths, and as important, there are clear and tangible things we must continue to do to improve our performance. I'll say more about these in just a moment, but for now, let me hand it over to John, to walk us through the results.

FY2021 RESULTS

John Shipsey,

Chief Financial Officer, Smiths

Delivered a Robust Performance

Thanks Paul and good morning, everyone. I'm pleased to share with you today our full year results. In summary, we executed well in FY21. We've put our cost structure in better shape, we've expanded margins, we've delivered more free cash flow than ever, and we've returned to growth. Top line revenue strengthened throughout the year, down 2% at £2.4 billion, but back to flat in the second half, and then growth for the last quarter. Conversion of this revenue into profit was strong. Operating margins were up 140 basis points, and operating profit up 7%. And that reflects decisive actions to improve our cost structure, and as a consequence, earnings per share grew 8%. And then on cash, it's been another year of excellent cash generation, thanks to ongoing improvement programmes that target operating and non-operating cashflows. Operating cash conversion was 125%, and free cash flow hit £383 million. So, in summary, good delivery from top line revenue through to profit and

cash, and we carry positive momentum into the new year, supporting our confidence for the future. Reflecting that confidence, the Board is proposing to increase the total dividend for the year by 8%.

Strengthening Top Line

Let's now look at the full year performance in more detail, starting with revenue. This year more than ever, it's important to understand the half-on-half trajectory. The slide here helps to explain that. You can see that pre-COVID we were delivering stable top line growth in FY19 and the first half of FY20. Then COVID struck, but our top line was still resilient. An annualised decline of only 4%, versus a 7% decline in global industrial production over the same period. And since then, we've seen a strengthening top line, black for the second half, and back to growth in Q4.

We're in fundamentally good markets that are recovering at different rates. Construction and semiconductors test set the pace in FY21. Energy and industrial markets are now coming back well, and threat detection, although not likely to show recovery this year, is anticipated to improve thereafter. Overall, we're exiting the year with positive momentum, and are well-placed to deliver pre-COVID levels of growth in 2022.

Strong Profit Conversion

So, positive top line trends. And another highlight of last year was the strong profit conversion. The group delivered operating profit of £372 million, up 7% on an underlying basis. Profit was up 14% on a reported basis. This included £20 million of adverse foreign exchange, positive £32 million from lower restructuring and write-downs, and £9 million from bolt-on acquisitions. Every division increased its operating margin, in the second half by more than 200 basis points to grow group full year margin by 140 basis points. The strength of profit conversion reflects decisive actions to put our cost structure in better shape.

An important part of this was the restructuring programme, where we successfully delivered benefits of £40 million in the year against costs of £21 million. So let's look next at the operating results of each division, where you can clearly see common themes developing of a resilient top line performance, forward momentum as markets recover, backed up by strong profit and cash conversion.

John Crane

So starting with John Crane, where we're seeing end markets recover positively, with aftermarket leading the way, and OE about six months behind. To remind you, aftermarket makes up about two thirds of John Crane's revenue. The improving trend is most immediately visible in orders, which grew 4% in the second half, with aftermarket up 5%, and OE flat. But it's also visible in revenue, which was down 10% at the first half, but flat in the second, showing plus 3% for aftermarket, and minus 5% for OE.

Both end markets of energy and industrials strengthened in the second half. Energy improved from minus 16% to minus 4%, and industrials accelerated from minus 1% to plus 8%. Operating profit was slightly down, but we strengthened operating margin up 80 basis points for the full year and 270 in the second half, reflecting improved aftermarket activity, as well as cost actions. So positive momentum in John Crane as end markets recover. And importantly, we're well-placed to meet new demand for products that drive environmental

improvements for our customers. For example, the Aura dry gas seal, that has prevented millions of tonnes of greenhouse gases from leaking into the atmosphere since its introduction.

Smiths Detection

Turning next to Detection, this is a good market and we're leaders in it. It's underpinned by circular growth, from security upgrades, infrastructure expansion, and global mobility – but as you know, the market has been hit hard by the COVID pandemic and is not yet showing signs of recovery. Despite these challenging conditions, detection performed well and protected profitability. Revenue was down 7% for the year, with OE down 10%, reflecting completion of some important pre-COVID programme wins. You'll recall Detection entered the COVID crisis with a record OE order book. Tenders subsequently slowed significantly, but actually, order intake still matched revenues, and recovery will come, first in urban security, and then in other markets.

Meanwhile, we continue to maintain a strong win rate. In the year, there were new wins, for cabin baggage at Heathrow, Milan, Kuwait and Qatar, for hold baggage in the US, Korea and Russia, as well as for border forces and stadiums around the world, and we're very well-placed with new technologies when end-markets do recover.

Aftermarket was down 4%. It constitutes more than 45% of Detection's revenues, and here we saw an improving trend, with decline of 6% in the first half reducing to 1% in the second. Aftermarket provides a solid platform of recurring revenue at good margin, growing as the installed base itself grows.

Looking at margin, it was an impressive performance by Detection, to maintain operating profit and grow margin by 70 basis points in the year, and 370 in the second half, despite lower volumes, all underscoring the success of cost actions.

Flex-Tek

Moving to Flex-Tek, which delivered another very strong performance. Decline of 1% in the first half was followed by growth of 13% in the second, to leave full year revenue up 6%. We achieved very strong revenue growth on the industrial side. To remind you, that's the largest part of Flex-Tek, accounting for over 80% of revenue. It performed extremely strongly, and grew revenue by 15% in the year, outperforming even the very strong US construction market. There were also improving trends in the aerospace side of the business, which was heavily impacted by COVID. Here, revenue was down 20% for the year, but up 2% in the second half, as we made market share gains and increased content on existing platforms.

All this meant Flex-Tek grew operating profits by 13%, and improved margins by 110 basis points. Included in the Flex-Tek results is a maiden contribution from Royal Metal, which we bought back in February. It exemplifies the disciplined, bolt-on M&A, with which we will continue to enhance our organic growth.

Smiths Interconnect

Then Smiths Interconnect, which also delivered very strong results. Revenue was up 7% for the year, and we saw high growth in semi-conductor test, as well as in space and defence. Headline operating profit increased by 54%, and margin was up 450 basis points, reflecting both higher volumes and cost actions.

Smiths Medical

Turning to Smiths Medical, as you know, earlier this month we announced the sale of Smiths Medical to ICU. Paul will talk more about the sale in a moment. During the year, underlying profit after tax improved slightly thanks to restructuring and tight cost control, but margins remained significantly below historical highs. Smiths Medical is undertaking remediation activity to address the findings of an FDA audit, and it has also written down the value of capitalised R&D relating to its large volume pump.

Excellent Operating and Free Cash Flow (Total Group)

Turning next to cash – this year, we demonstrated once again the ability to outperform on cash generation. In part the result of ongoing operational improvements which delivered 125% operating cash conversion and £630 million in operating cash flow. But we've also done it by close attention to non-operating cash flows, which culminated in the £383 million of free cash flow that you see here, up 40% year-on-year thanks to across-the-board improvement. Strong cash flow enabled us to fund organic growth, disciplined bolt-on acquisitions, and a progressive dividend whilst still reducing net debt by over £100 million, to end the year with leverage of 1.5 times. And on top of this we have more good news to come, which takes me onto pensions where we've made further significant progress in continued collaboration with the trustees.

Further Significant Progress on Pensions

The triennial valuations of the two main UK schemes have now been completed. Both are in a very strong funding position, evidenced by surpluses on a technical provisions basis. In April we paused contributions to the TI scheme and today we've announced agreement with the trustee to pause contributions to the SIPS scheme also. And as a result, ongoing cash contributions to pensions will halve to around £15 million in FY22 and £10 million thereafter. Overall freeing up £24 million of additional annual cash flow.

FY2022 Outlook

And so turning finally then to the outlook. The Group entered FY22 with good order book momentum and we're seeing recovery in our end markets balanced at different rates. COVID, economic uncertainty and supply chain challenges continue. But subject to managing those challenges successfully we expect Group revenue growth to return to around pre-COVID levels in the coming year. And we aim to deliver further operational efficiency and good cash generation. And with that, it's my pleasure to hand back to Paul.

CEO Review

Paul Keel

Chief Executive, Smiths Group Plc

High Quality Business with Strong Fundamentals

Thank you John. As I mentioned earlier, Smiths is a good business with strong fundamentals. And the results that we just shared illustrate this. We have distinctive technology, deep customer relationships and a large installed base, coupled with recurring aftermarket revenues. And a good track record of supplementing our primarily organic engine with bolt-

on M&A. The financial framework of this company is also solid, high margins, good cash flows and a strong balance sheet. And underlying all of this is a world-class organisation both in terms of capabilities and also global reach. All of this points to a significant value creation opportunity.

Enhancing our Performance

So what needs to be done to enhance our performance, particularly with respect to growth? In the few months that I've been on board I've physically or virtually visited many of our key sites and teams around the world. I've been in our labs, our plants and our service centres. And I've been in the field and worked with our customers. While I've heard from a diverse chorus of voices, the themes have been remarkably consistent. Building an even better Smiths, principally centred on three main things. Growing faster, executing better and further empowering our people to do what they do best. Improving our world through smarter engineering. Let me say a bit more about each of these today and then we'll have plenty of time at our Capital Markets Event on 17th November and 18th November to go more deeply.

Growing faster

I'll start with growth as that's where our biggest upside lies. As John just shared, we have built some good momentum. You saw improving growth trajectory across fiscal 21 but negative 2% for the fiscal year and flat for the second half is clearly not enough. We need to grow faster and I see this coming in a number of areas. Previously launched platforms are now beginning to scale quickly. Several exciting new launches, such as multi-layer refrigeration lines and hydrocarbon management seals, are coming soon. We're aggressively building out attractive adjacencies like methane detection and urban security, both closely aligned with the important themes of sustainability and digitisation. And in addition to our primary focus on organic growth we're layering on accretive acquisitions like Royal Metal, which is performing quite well.

The longer-term picture here is similarly encouraging. A healthy portion of our revenues come from four major customer end markets, industrial, energy, aerospace and security & defence. These markets are all large, global and populated by sophisticated demanding customers who choose Smiths because of our differentiated technology and service capabilities. Each of these markets is benefitting from the world reopening, albeit at different rates. Parts of industrial, for instance, are already quite strong. US housing starts are at multi-year highs and you just saw how Smiths benefits from this in the strong growth numbers we reported for Flex-Tek. Energy and aerospace demand are also ramping and you saw how Smiths benefits here from the numbers we showed on John Crane's order book as well as Interconnect's top line performance. Security & Defence is driven by infrastructure spend and regulatory upgrades. And recovery here is further out but it will come. And when it does Smiths Detection will participate meaningfully, which at a Group level will balance normalisation in the more quickly-recovering markets that I just mentioned. It is Smiths' balanced portfolio, balanced by industry, geography and technology, that uniquely enables us to access opportunities of such diversity and scale.

Operational excellence

Next on our priority list is operational excellence, which directly supports our growth agenda. In the broadest sense better execution means consistently doing what we say we'll do. Like exceeding expectations in fiscal 2021 for growth, operating margins and EPS. By completing our restructuring programme and delivering committed savings ahead of time. By growing operating income by 7% and then converting it to cash at 125% rate. And like fulfilling our commitment to separate medical which I will comment on shortly.

People and culture

Our third main focus in continuing to improve Smiths is our people and our culture. My many conversations with colleagues, customers and partners have left me in no doubt that amongst Smiths' many assets these are our most valuable. I'm blessed to work with people of distinctive character and ability, creatively collaborating across more than 50 countries.

First Priority – Delivering the Separation of Smiths Medical

Now, let me give you a quick update on the recently-announced sale of Smiths Medical to ICU with an enterprise value of US\$2.7 billion. Part of the purchase consideration comes in the form of ICU shares, the value of which has increased over US\$100 million since announcement. In addition we'll receive another US\$100 million should ICU shares appreciate 25% or so from today's levels in the four years following completion, an outcome we view as probable. So as of this morning total deal value is just north of US\$2.9 billion or better than 15x the US GAAP EBITDA number for Smiths Medical that ICU shared in their announcement. Upon completion of the deal, which we expect in the first half of calendar 2022, we'll return over US\$1 billion or £725 million to shareholders and further strengthen our balance sheet in support of the growth and operational priorities that I just outlined.

Improving our World Through Smarter Engineering

At our core we are an engineering company and the essence of engineering is working smarter, not just harder. Smarter engineering means bending curves for greater efficiency as demonstrated by our expanded growth and operating margins in fiscal 21. Smarter engineering means supporting customers with decarbonisation and embracing digital solutions to improve product and service performance. Smarter engineering recognises that the most inclusive organisations are also the highest performing. And maybe most importantly smarter engineering means helping to solve the toughest problems for our customers and our communities, many of which concerned our environment.

Since 2007 Smiths has made good progress in this regard. We've reduced our water usage by 53%, greenhouse gas emissions by 60% and non-recyclable waste by 63%. Around 60% of the electricity we use today comes from renewable sources. Now, in the four months that I've been on board we've swiftly built on this commitment by signing on to the science-based targets initiative, the UN Race for Zero and we've publicly committed to net zero emissions from operations by 2040. As you'll see at our General Meeting in just a few weeks, we've added ESG metrics to our long-term compensation programmes and we've established a new Science Sustainability and Excellence Committee on our Board of Directors. You can see clearly in our purpose statement that Smiths is committed to improving our world through smarter engineering. And all of these are tangible examples that we take this commitment very seriously.

Summary

Let me wrap up by saying that this is a very exciting time for Smiths. We exited fiscal 21 with strong momentum and are now well positioned for accelerated growth in our industrial technology core. I'm confident that we're headed in the right direction and our focus now is squarely on acceleration. Acceleration of growth, acceleration of execution, acceleration of value creation. I'll close by thanking all Smiths employees for your hard work and dedication that makes this performance possible. In the same way we're grateful for the strong support we receive from our customers and shareholders. With that, I'll pass it back to the operator for any questions that you might have. Thank you.

Q&A

Operator: To ask questions over the phone line you will need to press star and one on your telephone keypad. To cancel your request you may press the pound or hash key. Once again, to ask a question please press star and one. The first question comes from the line of Andy Wilson from JP Morgan. The line is now open, please go ahead.

Andy Wilson (JP Morgan): Hi, good morning everyone, hopefully you can hear me okay. I've got three questions, quite distinct, I'll take them one at a time. I just wanted to ask around Flex-Tek, it's obviously been very good, particularly second half performance and momentum in particular I guess the US resi side is very good and aerospace is obviously coming back. Can you try and give us a sort of some help on what the outlook for FY22 looks like? Just conscious that those markets are seeing quite different trends and are in sort of different places versus previous peaks. Maybe if I start there.

Paul Keel: Yeah, good morning Andy and thanks for the question. Yeah, you're correct, Flex-Tek had a very good fiscal 21 and as you noted the two principle customer end markets are industrial with a big exposure to construction and in particular US construction. And the second half is aerospace. So Flex-Tek benefits from a – you know, a balance portfolio in the same way that the broader Smiths does. While the US housing market is red-hot right now and Flex-Tek is actually growing more quickly in that segment than the overall industry, we don't expect that to continue forever of course. At a balance to that is the aerospace side which has been under some pressure recently but starting to come back. And as that segment continues to grow Flex-Tek will benefit there. So looking to fiscal 22, I would expect continued growth in Flex-Tek. They're in good markets and they execute particularly well, you know, in the spaces that they – that they play.

Andy Wilson: And then the second one is just on Detection. I guess clearly a very different sort of trajectory to some of the other businesses with regard to orders supporting revenues but then obviously I guess needing to win more orders on revenues I guess that are probably being pushed out by some customers. But kind of notwithstanding that backdrop I'm interested in terms of the competitive dynamics and you've mentioned a number of contract wins in the year. I guess interested in terms of what you're seeing from competitors if you feel you're sort of being able to take market share, albeit that the market necessarily isn't particularly helpful at the moment.

Paul Keel: Yeah, Flex-Tek has three principal markets that they play in, as you know Andy. The largest of which is aviation security, second is urban security and then the third is ports

and borders. And while the customer set differs slightly across the three, it's the same main players. Smith Detection does well in all three of those markets and while the overall aviation security market, you know, will take now maybe a year or more to recover. We continue to get, you know, more than our fair share of wins. As John mentioned, we had big tender wins in fiscal 21 across some very important markets. We see a little more activity on the urban security side, a little bit different customer set or competitive set there. But that market's recovering a little more quickly. And then the ports and borders piece, you know, behaves independently because that's principally driven by, you know, government decisions and macro – global macroeconomic trends regarding security.

Andy Wilson: And maybe if I can ask I guess this is a third one. And it's really just to clear up, I guess help me a little bit with the understanding. But there was a separate release this morning in terms of talking about exercising the put option with regards to the Medical transaction. And I know that there were conditions seemingly associated with that. I mean, it's probably a very simple broad question but can you try and clear up the implications of that release and sort of what we need to take away from that?

Paul Keel: Sure. Another positive step forward in the sale of Medical to ICU. As you'll remember from the RNS a required step in that process to completion is a non-binding consultation with our French Works Council. That process is now complete and there's only two steps remaining to the completion of the transaction, which we expect in the first half of next calendar year. That's approval by regulators and approval by our shareholders. So that's coming together to be a very nice outcome in the sale of Medical. As I mentioned in my comments, headline value of US\$2.9 billion, all in value as of today north of US\$2.9 billion and a purchase multiple better than 15x. So we feel good about where we stand in that process.

Andy Wilson: Great, thanks for taking my questions.

Paul Keel: Yeah, thank you Andy.

Operator: Thank you. The next question comes from the line of Will Turner from Goldman Sachs. Please go ahead Will, the line is now open.

Will Turner (Goldman Sachs): Morning everyone. Two questions from me. the first one is on the supply chain issues that you're experiencing. You didn't speak to it in too much detail. I just wondered if you could just highlight how this is impacting you and how you're mitigating these challenges. And whether you see the situation deteriorating or improving.

Paul Keel: Yeah, good morning Will. Thanks for the question. Yes, you know, we're feeling supply chain pressures as is everyone else. There's the categories that are well-covered at this stage, semiconductor and transportation. You know, we're participants in those as well and feel that. And there are some other more specific categories for our mix of businesses, specialty materials for instance. We're also, you know, a relatively big customer for steel, in particular in our Flex-Tek business. But for the most part, our job is to manage these interruptions and work through them. And we feel good about our ability to do that. Fiscal 21 was probably the most disruptive supply chain situation that most of us have seen in our career.

We have two built-in advantages I think in this regard. The first is our balanced portfolio. We participate in a lot of different markets and a lot of different end customer segments. So no one particular raw material input is – represents a big part of our revenues. The second part of this is we're well-diversified geographically operating in more than 50 countries and for the most part our supply chains are architected such that we source locally, manufacture, assemble locally and deliver locally. So there isn't the sort of longer supply chain interruptions that you can see getting manifested when you have a hiccup in any one particular part of the world.

Will Turner: Okay, that's clear, thanks. And then just a follow-up question. You talk about how you see significant opportunities to enhance growth at Smiths Group. And obviously when we look back historically organic growth has probably been one of the things where it's lapsed and part of that is obviously the Medical asset which is now going to be moved over to ICU. But can you just give us a bit more colour on where you think there are levers that can be moved to enable faster growth? What can we expect? Is it higher R&D costs? What – just a little kind of like hint to the kind of strategic changes you're thinking about to enable that growth.

Paul Keel: Yeah, you know, maybe three thoughts Will in this regard. So the first, we are absolutely an organic growth engine. High margin business, high returning businesses and for us the highest return on any incremental dollar is always going to be in the core. And as I mentioned in my comments, we already have some platforms that have been introduced recently that are – that are scaling nicely. Our multi-layer tubing systems in Flex-Tek are a good example. We have some very interesting technologies that have launched in Detection. Like a chemical detection platform that we have. And all of those are gaining good traction. That will continue now as we have more resources to invest in commercialising those. Incremental to that then is the new product engine. John mentioned a couple of the platforms that are in the pipeline that will be launching here in fiscal 22. And we're enthusiastic about the prospects for those.

The second piece of the puzzle relates to Medical. So not only was Medical dilutive to our top and bottom line growth, over the last four months that I've been here and the three years since we announced our separation, it has really consumed an inordinate amount of management time, enterprise, resources and additional capital from the – from the business. You know, just in the month since we announced the sale to ICU you can already feel a tangible shift in our attention and that's going to – that's going to yield a big benefit. That was the overarching rationale for separating Medical. So I'm excited for that.

And then the third is the piece you mentioned, the bolt-on inorganic M&A that we used to supplement the core organic engine. And we've a decent track record there. Royal Metal is a really nice example, US\$100 million purchase. We did it in February and, you know, we were thoughtful about which business to invest in and which end market. That lines up well with the industrial growth that I mentioned in Flex-Tek. And so that business is well ahead of plan. So I think we have a lot of leverage here to accelerate growth moving forward.

Will Turner: Great, thank you.

Operator: Thank you. The next question comes from the line of Andre Kukhnin from Credit Suisse. The line is now open, please go ahead.

Andre Kukhnin (Credit Suisse): Yes, good morning, thank you very much for taking my questions. I've got two please. One is on savings. You've clearly outperformed on the programme in fiscal 21 and in the second half by the sounds of it. And you're calling for it to be pull through from 2022. In past experiences when these kind of faster pace of savings are generated they I think at least in some cases led to overperformance on the whole programme overall. So I just wanted to check with you your thought process on that. Whether there is upside to that £70 million target. Secondly, just dovetailing into what you were just saying now about the inorganic growth, it's interesting to see a deal coming through already. I wanted to, to get your thoughts please about potential pipeline there and across divisions which kind of are the businesses that are most ready to make acquisitions right now. Thank you.

Paul Keel: Thank you Andre. I'll ask John to take the first one. I'll come back and say a little bit about our M&A pipeline.

John Shipsey: Thanks Paul and good morning Andre. No, we are committed. We committed and we stick by our £70 million savings for the restructuring programme. As you highlighted, we did overperform in terms of timing so we were committed to delivering £30 million of savings in FY21. That was going to be £21 million in continuing operations and £9 million in Medical. We ended up actually delivering £40 million in continuing operations and £7 million in Medical. So yes, definitely overperformance in terms of timing. We stick by our £70 million target for the complete programme as we highlight, the charges are now complete. There's a remaining £23-odd million of cash that will go out in FY22 to complete the cash restructuring. But yes, we're very pleased with how that restructuring went. It was part of a wider effort, good operational management throughout FY21 and that's what delivered the 140 basis points improvement in margin.

Paul Keel: And then Andre with respect to the M&A pipeline, you know, maybe three things I would – I'd have for you on that. First I just reinforce, you know, our main focus for growth moving forward is organic. With high margin, high return businesses like ours that's always going to be highest return on capital invested. The pipeline is strong. One of the benefits of having such a diverse portfolio, both in terms of industry segment but also geography, is that you operate in a lot of markets and you see a lot of opportunities. So we have a lot of M&A candidates coming our way. I feel right now, it's particularly important to be extra disciplined. Values are high, money is moving quickly and while we were, you know, a benefactor of that on the Medical sale side now at north of 15x, you know, we like much lower multiples when we're on the buy side of those deals. Third thing I would say is we'll talk about the adjacencies that we're most interested in here in our Capital Markets Day, you know, coming up in a couple of months. Good core positions in the four markets I mentioned in my comments. A lot of interesting adjacencies around those. Urban security, methane detection, energy transition and that M&A there will play a role, you know, helping us accelerate our penetration of those adjacencies.

Andre Kukhnin: Thank you.

Operator: Alright, the next question comes from the line of Mark Davies Jones from Stifel. Once again, to ask a question please press star and one. Please go ahead, Mark.

Mark Davies Jones (Stifel): Thank you very much. Morning both, a couple of things please. Firstly, can I just go back to Detection. I obviously understand that it's going to be one of the last things to recover but in terms of the 22 outlook, are you comfortable you can hold revenues broadly flat? I think John said orders were tracking in line with revenues at least. Given the weighting of aviation in there and the fact you've completed that regulatory backdrop, what supports that sort of flattish revenue outlook? And in particular are there any more sort of regulatory drivers or upgrade cycles that we should be aware of within that aerospace piece?

Paul Keel: Well, thanks for the question Mark. As you know, we don't give revenue guidance at the division level. But I think your sense is right. There's, you know, a nice balance in Detection across some of the end markets recovering a little more quickly coupled with the strong order book that we had coming into the pandemic. That gives us, you know, some tailwind but up against still, you know, another 18-24+ months for the core threat detection segment to recover. So it's going to be a balance of those two factors and we'll just have to see how they play out on the plus or minus side there.

Mark Davies Jones: Okay and perhaps a slightly longer-term one in terms of the organic growth outlook. For Crane do you think we can expect a normal cyclical recovery in activity given the diversion of capital away from the hydrocarbon sectors at the moment? I mean, clearly there are some regulatory and environmental pressures supporting spending but overall do you think that core market can grow in the way that it has done in the past?

Paul Keel: Yeah, I mean, we're particularly enthusiastic about our position in Crane. So two things are working in our favour there. One in the near-term, one in the long. In the near-term, as I mentioned, the energy sector is just coming on. Although the last two years have been anything but normal, the shape of that recovery in energy looks similar to what we've seen in the past. So as we look forward to 2022 and 2023 we're expecting that part of the recovery to behave similarly. And that'll be – you know, that'll be constructive for us.

The second piece is the energy transition that you mentioned. Right now, you know, every energy company on the planet is focused in the same way that Smiths is on, you know, minimising their impact. And a lot of that comes around to leaks in their infrastructure. Methane leaks, et cetera. So Crane can help them right now. And then as they move to cleaner energy sources, hydrogen and others, Crane is even better positioned because these are very complicated transitions, higher pressures, higher risk, for instance, in hydrogen. And it's Crane's both their distinctive technology but also their service centre. 200 service centres approximately close to, you know, our customer sites positions Crane very uniquely to help with that. We have both near-term, medium and long-term positive trends going on in that business and that's why we're positive.

Mark Davies Jones: Thanks, that helps. And if it's not greedy can I ask – follow up with one for John? Excellent progress on the pension side but I see also on John Crane the asbestos payments have reduced quite materially, both in terms of P&L impact and cash flow. Can that be continuing? Have you really sort of tidied up all these legacy nasties now? Or is that a one-off this year?

John Shipsey: Thanks Mark and good morning. I mean, I think I'd draw a distinction. On pensions, yes, really positive news and we are – with the trustees, you know, we're working

very hard to get towards buyout faster than the 2028 target for both schemes. So on pensions we don't see – unless circumstances change, we do not see the need for any further cash contributions to either TI or SIPS, the two main UK schemes. So that's kind of drawing a line under those in my view.

On the John Crane asbestos litigation, I think it is slightly different. We did benefit this year in two ways. First of all in terms of the provision, non-cash but the discount rate that we applied to that liability, the discount rate went up. And therefore the present value of the liabilities went down. That just happens through the cycle. We did secondly benefit in a cash way because the US courts were working at significantly reduced capacity. And therefore the number of trials and our defence activity which makes up the largest part of the spend was significantly reduced in line with that. That I would say is a temporary COVID effect and we are not relying on that to continue. We would expect, all other things being equal, a return to a normal rate going forward.

Mark Davies Jones: Thank you, that makes perfect sense.

Operator: Thank you. Once again, to ask a question please press star and one on your telephone keypad. To cancel it you may press the pound or hash key. Once again to ask a question please press star and one. The next question comes from the line of Robert Davis from Morgan Stanley. Please go ahead, the line is now open.

Robert Davis (Morgan Stanley): Yeah, thanks for taking my question. My first one was just around the medium-to-longer term margin potential for Crane. Obviously with the pressure we've seen in oil and gas and you mentioned the recovery looked similar to previous recoveries. Just be curious to hear your thought process in terms of margin trajectory in terms of where you think it can get to and over what timeline. That was my first question, thank you.

Paul Keel: You know, Crane's a scale business so it benefits from economies of scope and scale. And for the reasons that we just walked through on the previous question, is as that industry recovers and, you know, the growth momentum continues, there's natural, you know, built in efficiencies that come with that. Longer-term I guess it's reasonable to assume that, you know, investment will be required as we help our customers transition to these alternative energy means. Difficult as we sit here today to quantify what that might look like. You know, there's a lot of invention that has to go – to go with this. But at its core Crane is a very good business, secularly attractive market, very well positioned and we expect good things to continue, I guess would be my view.

Robert Davis: Good, thank you. And then my follow-up question was just really around the bigger picture view around improving growth sustainably over the medium-to-longer term. I'd just be curious, historically Smiths has had I guess a challenging backdrop trying to align growth across these different businesses which all move on different cycles. I'd just be kind of curious if you're thinking about – are you – are you thinking of realigning the business around specific end markets? I mean, we've seen one acquisition this morning. Is it – is there a change in direction of portfolio or focusing around, you know, the current divisional structure or certain end markets that you need to bolster? Just be curious of what your longer-term vision is for the company, whether it's an end market or business structure. Thank you.

Paul Keel: Yeah, well, I mean, obviously we announced a major portfolio change just a few weeks back. And the centrepiece of the decision to separate Medical was to redirect attention, resources and capital to the much higher performing, more strategically aligned industrial technology core. And I'm excited that that announcement has been made and we now have the benefits of that portfolio realignment to go after. So that's going to be our main focus here in the near-term. There's many opportunities in those markets that frankly we haven't accessed deliberately or quickly enough in the past. You know, because I think we were – we were distracted by the Medical situation. There's opportunity in each of those four core businesses and we're excited to now have the freed up attention, resources and capital to go after them. So that's going to be our focus here moving forward.

Robert Davis: I see. Thank you very much.

Operator: Thank you Robert. Next question comes from the line of Edward Marlinicker. Please go ahead Edward, the line is now open.

Edward Maravanyika: Thanks very much. Good morning Paul. My question is just based on – is based around Detection and more specifically around airport CapEx. Could you sort of maybe just give any indication of the outlook in terms of infrastructure build but also in terms of kind of upgrades on the security side?

Paul Keel: Edward, are you asking about CapEx for us or CapEx for our customers?

Edward Maravanyika: Both. For your – for your customers. For your customers, which I suppose is a driver of your business.

Paul Keel: Yeah. Well, you know, two – at least two things drive the underlying demand in the threat detection space, the biggest end market that Smiths Detection is exposed to. The first is technology upgrades that are mandated by the regulators. Going from x-rays to computer tomography. Going from CT to the next generation that we're working on and we'll talk more about it at Capital Markets Day coming up. And so that'll be – that is by definition a CapEx requirement for our customers. When there's a mandated change in the technology they use we benefit from that. The second is the global view around threat levels. And that's very difficult to forecast of course but when these unfortunate events happen that leads to, you know, capital expenditure. That's a – you know, I think the world correctly concludes that those investments are appropriate and necessary. And we benefit there as well.

Edward Maravanyika: Okay, understood, thank you.

Operator: And no further question at this time, Paul. Please go ahead.

Paul Keel: Okay, well then I'll wrap up by saying, you know, thanks everyone for tuning in this morning. Fiscal 21 was a – was a good year for Smiths and provides a solid platform on which we can build. We've established good momentum. Margins and cash flow are strong. And with the sale of Medical we have a much more focused core of well positioned industrial technology businesses. We're very much looking forward to getting into greater detail on all of this in just a few weeks at our Capital Markets Event and until then, take good care everyone and we'll speak again soon. Thank you.

[END OF TRANSCRIPT]